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ABSTRACT

This unit on small business compliance with government regulations, the 10th in a series of 18 modules, is on the second level of the revised PACE (Program for Acquiring Competence in Entrepreneurship) comprehensive curriculum. Geared to advanced secondary and beginning postsecondary or adult students, the modules provide an opportunity to learn about and try out entrepreneurship ideas so that students can make a preliminary assessment of how these ideas relate to personal needs. The units on this level contain detailed explanations of small business principles, suggestions on how to find information and use techniques, and encouragement for creating a future business. Students completing this unit should be able to perform these competencies: (1) identify areas of government regulation that should be considered in a business plan and (2) compile a list of appropriate government agencies concerned with regulations, licenses, and permits. The unit is organized into five sections. Following a preliminary section on how to use the unit (with vocabulary and a review of the objectives for this topic on level 1), the unit's information is presented in question-and-answer format. Individual and group activities, an assessment to be completed with the teacher, and sources used to develop the unit follow. A list of the modules of Revised PACE, Level 2 completes the unit. (KC)

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PACE
REVISED
Program for Acquiring Competence in Entrepreneurship

UNIT 10

☐ Level 1
☑ Level 2
☐ Level 3

# Complying with Government Regulations

Developed by M. Catherine Ashmore and Sandra G. Pritz

**You will be able to:**

- **Identify areas of government regulation that should be considered in a business plan.**
- **Compile a list of appropriate governmental agencies concerned with regulations, licenses, and permits.**

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## BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Summarize the importance of government rules and regulations to the individual entrepreneur
   - Classify legislation according to whom it is designed to protect
   - Explain at least three types of federal, state, and local taxes affecting small business

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide.*

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|---|---|
| adulterated | excise tax |
| agent | interstate |
| anti-trust laws | intrastate |
| collective bargaining | monopoly |
| competition | price fixing |

# COMPLYING WITH GOVERNMENT REGULATIONS

**WHAT IS THIS UNIT ABOUT?**

Many government laws affect small businesses. These regulations may require the owner to obtain a certain type of business license, install special pollution control equipment, disclose the "true rate of interest" to credit customers, or pay various taxes.

Government regulations are made at the federal, state, and local levels. The number of rules and regulations affecting small businesses seems to be increasing and becoming more complex. The owner of a small business who seeks help from lawyers, accountants, governmental agencies, and other sources of aid is wise.

The focus of this PACE unit is on planning for compliance with governmental regulations. Topics in this unit include the importance of government regulations, types of regulations, and the kinds of taxes collected and paid by the owners of small businesses.

**WHY ARE GOVERNMENT RULES AND REGULATIONS IMPORTANT?**

Most business laws were originally passed to protect our economic system and its people. As the business world grew, so did the laws. In our country today, laws are always being changed. The growth and complexity of our economy have also encourage new laws. These laws function to ensure a healthy society and hence a healthy business environment.

Today's owner of a small business often feels overwhelmed by these protective laws. However, some basic understanding of their purpose is important. Your firm will be able to comply with the laws if you plan to learn about rules, regulations, and taxes. Awareness of the regulations with which your business must comply will help you to establish ways to better meet your personal responsibility as an entrepreneur. As you learn more about government rules and regulations, you may discover that certain types of records will be very important for your firm. It will be your responsibility to be sure your firm keeps these records and complies with the appropriate federal, state, and local regulations.

**Purpose of Regulations.** Even though government laws may increase the work of small business owners, they exist to promote and protect a healthy society. You may often think that the time you spend filling out forms and staying up up to date on laws concerning your firm could be better used in operating your business: However, every business depends on a healthy society for its success. Attempts by the government to protect the interest of all citizens also work for you.

Government regulations have been written to promote competition, and to protect various groups or society as a whole. For example, laws exist that ban business monopolies, establish fair employment practices (especially as they pertain to women, minorities, and handicapped persons), set standards for pure food and drugs, and regulate pollution of the environment.

**Source of Regulations.** Regulations on the operation of small businesses are made on the federal, state, and local levels. Federal regulations apply to businesses that operate across state lines. State and local rules apply only to businesses within the state or community.

Federal legislation is passed by the U.S. Congress. Agencies are established by the laws to enforce the regulations. Approximately ninety regulatory agencies exist. Some of the more important agencies are—

- the Federal Trade Commission
- the Equal Employment Opportunity Commission
- the Occupational Safety and Health Administration
- the Environmental Protection Agency

**Impact on Small Business.** Government regulations are written to achieve desirable economic and social goals. Preserving fair competition and protecting minorities and disadvantaged persons are usually agreed to be goals of government regulation. Our society as a whole and small business in particular receive benefits from government laws. The Small Business Administration is a government agency that provides many valuable services to the owners of small businesses in our nation.

Government regulations also are a source of problems for small businesses. They create a burden of extra paperwork and costs. Many owners of new small businesses are surprised at the large number of government reports and forms they must complete. Many estimates of the costs to businesses of government regulations have been made and they all amount to billions of dollars a year.

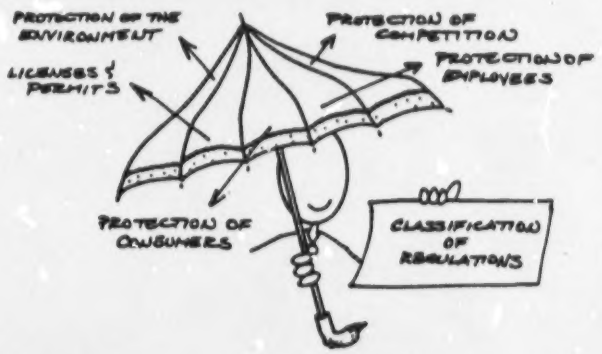
Government regulations also affect the plans and daily operation of a small business. The government influences basic management decisions, such as—

- What lines of business to enter?
- What products can be produced?
- Which investments can be financed?
- Under what conditions can products be produced?
- Where can products be made?
- How can products be marketed?
- What prices can be charged?
- What profit can be kept?[1]

Federal, state, and local laws influence and control certain business practices. Whatever your business is, government officials and other professionals such as lawyers, accountants, and bankers should be contacted. They can determine the specific effect the many regulations will have on your business operation.

**HOW CAN FEDERAL REGULATIONS BE CLASSIFIED?**

Government regulations have been established for the protection of (1) competition, (2) employees, (3) consumers, and (4) the environment. The federal government regulates business among states. State government regulates business within its own boundaries. Local governments are concerned with business operations within county or municipal boundaries.




**Protection of Competition.** Competition is the cornerstone of the American free enterprise economy. Over the years, laws have been made to maintain the conditions necessary for fair competition. These laws are known as antitrust laws. Three of the major federal laws passed to protect competition among businesses include the Sherman Act, the Clayton Act, and the Robinson-Patman Act. Competition is protected by making it against the law for businesses to use unfair business practices, such as price fixing.

The Sherman Act was passed to prevent businesses from restraining trade and monopolizing markets. The Act has two major sections regarding unfair competition. Section One says that every contract, business organization, or conspiracy designed to restrict trade or commerce is illegal. While Section One is directed at business organizations or their activities, Section Two is directed at individuals. This section makes it illegal for any person or group of persons to monopolize or attempt to monopolize products or industries.

The Clayton Act was designed to strengthen the Sherman Act. The Clayton Act specifically prohibits four types of business acts, if these practices tend to lessen competition or create a monopoly. First, price discrimination—charging different prices to different buyers—is illegal unless the different prices are set to meet competition. Second, exclusive and tying contracts are illegal. Exclusive contracts require a customer to agree not to sell the products of the supplier's competitors. Tied contracts occur when a customer must sign a contract for two different products to obtain one of the products. A third prohibited practice is intercorporate stockholding. A

corporation cannot own the stock of another corporation if it results in reduced competition. The fourth practice prohibited by the Clayton Act is interlocking directorates. A person cannot serve on the board of directors of two or more competing companies if this would reduce competition.

The Robinson-Patman Act was passed to strengthen the Clayton Act regarding price discrimination. The aim of the Robinson-Patman Act was to equalize prices to all customers if the costs of providing the goods are similar. More specifically, the act prohibits: (1) price discounts unless there are differences in costs; (2) selling private and regular brands of an identical product at different prices; and (3) giving unequal advertising or sales promotion allowances to different buyers. An important aspect of this act is that the burden of proof rests with the seller of the product.

**Protection of Employees.** Many government regulations exist for the purpose of protecting employees. State and local governments have enacted their own provisions, but the major employee protection laws have been passed by the federal government.

A major concern of government regulations is the health and safety of employees while on the job. The Occupational Safety and Health Act (OSHA) is one of the most important pieces of legislation protecting employees. This act was written to make all employers provide a safe and healthful workplace. One out of every eight workers has a work-related illness or accident each year. OSHA was passed with the intent of reducing such problems.

Practically every worker other than domestic and household workers and miners are covered by this law. Domestic and household workers are protected under other legislation. Many states have adapted the provisions of OSHA. Some have developed additional legislation of their own to protect employees.

Many small business owners have voiced concern about OSHA. These owners, some of whom consider the law a necessity, note that their heavy workloads leave little time to comply with one more regulation. What can the owner of a small business do to ease the burden? Below are some steps that you, as an entrepreneur, can take to meet OSHA requirements and yet not have an overwhelming task.

First, you must be sure that your employees are familiar with OSHA and your firm's safety regulations. Second, if you have more than ten employees, you must keep a record of work injuries and illnesses. Third, you should know OSHA standards and the procedures to be used for a workplace inspection.

A second major area of concern is the economic protection of employees. The Fair Labor Standards Act is intended to protect workers. It provides for minimum wages, maximum hours, overtime pay, equal pay, recordkeeping, and child labor limitations. The Act requires equal pay for equal work for all employees covered by minimum wage laws. The law does not prohibit paying different

wages if the wage difference is based on seniority, quantity of work, or quality of work. However, if the job requires the same skills, efforts, and responsibilities, then an employer cannot pay one employee different wages than another.

In addition to the Fair Labor Standards Act, the Walsh-Healy Act, the Davis-Bacon Act, and other related acts establish wages, hours, and working conditions that are applicable to government contractors.

The above laws may or may not cover your employees. Specific information can be obtained from your nearest office of the Wage and Hour and Public Contracts Division, U.S Department of Labor.

The Social Security Administration (SSA) in the Department of Health and Human Services (HHS) administers the Federal Social Security Act.

The Act provides monthly benefits to persons and their dependents in the event of retirement, disability, or death. It also provides health insurance (Medicare) to persons sixty-five and over and to some disabled persons under sixty-five. There are thirteen hundred Social Security offices in the United States. If there is no office in your community, consult your local post office for the visiting schedule of social security personnel to your area.

In addition to the Federal Social Security Act, other laws deal with economic security for employees. Legislation for economic security is designed to reduce employee losses from industrial accidents, work related diseases, and unemployment. Such laws also provide hospital and medical care for the employee and furnish some income to the employee after retirement.

The Federal Social Security Act encouraged all states to enact economic security laws, and they have done so. Protection from income loss from industrial accidents and work related diseases comes through these state worker's compensation laws. Worker's Compensation provides benefits for injured workers or their dependents regardless of who is at fault. If a worker is killed or injured on the job, the worker or the worker's dependents collect according to a schedule based on the type of injury. The worker does not collect benefits if the injury results from a fight that he or she started, if the injury was self-inflicted, or if the worker was under the influence of alcohol or drugs.

The employer pays the total costs of Worker's Compensation coverage. You, as the employer, must carry Worker's Compensation coverage through state or private insurance companies. Requirements vary from state to state. Worker's Compensation plans are usually managed by a state department of labor or a special state commission.

Another law in this area is the Pension Reform Act. This law is designed to protect employee investments in company pension and profit-sharing plans. You should check with your state labor office to

be sure of the exact rules and regulations that apply to your business in the area of economic security for employees.

Fair employment practices is another broad area of protection for employees. Fair employment practices are established by the Federal Civil Rights Act. This Act makes it unlawful to discriminate on the basis of race, religion, age, or sex. Also, many states have enacted fair employment practice laws. In hiring employees, you, will be concerned with maintaining the standards established by such laws. An employer can get into trouble by asking preemployment interview questions about race, religion, age, and marital status.

The National Labor Relations Act, the Taft-Hartley Act, and the Labor Management Reporting and Disclosure Act are three major federal laws dealing with the possible formation and the operation of unions. This legislation guarantees the right of employees working for businesses engaged in interstate commerce to organize and bargain collectively with their employers or to refrain from such activities. States also have enacted laws designed to uphold collective bargaining and to define unfair labor practices.

Additional laws that are concerned with fair employment practices include the Equal Pay Act, the Age Discrimination in Employment Act, and the Equal Employment Act. Small business owners would be wise to become familiar with these laws.

**Protection of Consumers.** Some federal laws that are aimed at protecting consumers. These include—

- the Pure Food and Drug Act
- The Federal Equal Credit Opportunity Act
- the Fair Credit Billing Act
- the Fair Credit Reporting Act
- the Consumer Credit Protection Act
- the Federal Food and Drug and Cosmetic Act
- the Fair Packaging and Labeling Act
- the Textile Fiber Products Identification Act

A major consumer complaint has been the difficulty of understanding various terms surrounding the borrowing of money. Laws have provided credit protection to customers. The Consumer Credit Protection Act is commonly called the "Truth-in-Lending Act." If you give credit to your customers, you will be affected by this law. This law is intended to clear up the meaning of credit terms. It requires that lenders provide borrowers with explanations of credit terms. Then the borrower will know exactly what credit will cost. The consumer will be able to compare various credit terms. The law also provides that lenders tell the truth when lending money or extending

credit. They must state their credit terms and interest costs in easily understood words.

An amendment to the Act limits how much financial responsibility the consumer has for lost or stolen credit cards that are used illegally. The limit is fifty dollars on cards issued on or before January 25, 1971. There is no liability on cards issued after that time, unless the credit card issuer takes several steps, such as: (1) notifying the card holder of limited liability; (2) providing a postage-free means of notification of loss; and (3) providing a means of identification, such as signature, thumb print, or photograph of the consumer.

A second law, the Equal Credit Opportunity Act, is designed to ensure that consumers are not denied credit for reasons of sex, marital status, age, race, religion, or national origin. A third law, the Fair Credit Billing Act, was passed to provide consumers with a chance to discuss errors in billing statements and to require lenders to make an effort to correct such errors.

In addition, the Fair Credit Reporting Act is designed to ensure that a consumer's credit report will contain only accurate, relevant, and recent information. The information must be kept confidential unless requested for an appropriate reason by the proper party.

Consumer credit problems have just recently been addressed by government legislation. A concern that has had government attention for many years is the mislabeling and sale of hazardous products.

The Food and Drug Administration (FDA) is a federal agency within the Department of Health and Human Services. It protects consumers by enforcing laws and regulations that prohibit distribution of impure or misbranded foods, drugs, and medical devices. Cosmetic and veterinary products are also covered by this agency.

The Pure Food and Drug Act forbids "adulteration and misbranding" of foods and drugs sold in interstate commerce. The federal Food, Drug, and Cosmetic Act added cosmetic and therapeutic devices to the FDA's jurisdiction. The Act also changed the definition of misbranded foods. The definition of improper labeling was broadened to include any "false and misleading" label.

The Fair Packaging and Labelization Act intends to prevent unfair or deceptive packaging or labeling of certain consumer goods.

"Truth-in-Fabrics" legislation has also been enacted for consumer protection. The Textile Fiber Products Identification Act requires informative labeling and advertising of textile fiber products. Retailers or wholesalers who sell or advertise textile products share with the manufacturer the responsiblity for seeing that the fiber content of goods is properly labeled and advertised. For example, this federal law applies to persons advertising clothing or household fabric products in newspapers having interstate commerce,

regardless of whether or not goods are actually marketed across state lines. Therefore, the vast majority of retailers handling textiles have definite responsibilities under this labeling law.

Another area of consumer concern deals with product warranties. The Magnusen-Moss Warranty Act sets standards for businesses offering warranties. The basic provision of the Act requires that warranties be written in language that is understandable.

**Protection of the Environment.** Concern about protecting the environment has resulted in the passing of many anti-pollution laws. Industrial wastes pollute many of our lakes and streams. Some rivers have actually been known to burst into flames from flammable pollutants. The disposal of industrial wastes has created problems for many land fills and areas such as Love Canal in Niagara Falls, New York.

To reduce these problems, the following federal legislation has been passed:

- The Clean Air Act
- The Solid Waste Disposal Act
- The Water Quality Act
- The Noise Control Act

**Licenses and Permits.** A business license or permit is formal permission to operate a business. Certain types of businesses are commonly licensed.

Some types of businesses are "licensed" by the federal government. The Federal Communications Commission (FCC) is an example of a federal agency with licensing power. The FCC licenses radio and television stations. If you wish to operate a radio or television station, the FCC will assign your station a frequency or channel.

The Civil Aeronautics Board (CAB) is another federal licensing agency. It licenses charter, passenger, and freight airlines. Individuals who qualify to operate private aircraft must also obtain a license from CAB. However, for commerce operating strictly within a state, individual state Public Utilities Commissions (PUCs) issue licenses to airlines operating only within the state boundaries.

Federal permits or licenses are issued by other government agencies. For example, any company using government property while involved in the preparation of meat products (such as sausages and hot dogs) or involved in the production of drug products must obtain federal licenses.

If you plan to hire employees, you must obtain an employer's Social Security identifiaction number through the Internal Revenue Service.

This number is really a type of "license."

Many states, counties, and municipal governments issue licenses and permits to various types of businesses. These requirements vary from state to state and from one community to the next.

States that have sales taxes usually require businesses to obtain a special license or permit. This license allows the business to give the permit number when purchasing goods for resale instead of paying sales tax. Since the sales tax is a consumer tax, the business is required to collect the tax when selling merchandise to consumers. The business owners must send the taxes collected to the state.

Some states require that cemetery brokers, dry cleaners, and collection agencies obtain special licenses before they open. In most states, firms that sell liquor must be licensed. To obtain these licenses, the person must file an application with the state, county, or community agency.

Every business must also meet local zoning laws, comply with building codes, and meet standards set by local health, fire, and police departments.

## WHAT TYPES OF BUSINESS TAXES ARE THERE?

Tax laws will affect any business venture. They should be important factors in all business planning. Taxes affect both long-term and short-term business plans.

The entire topic of taxes is complex and always changing. You will probably find that you do not have the time to keep up-to-date on all the latest tax laws at the local, state, and federal levels.

Hiring the services of a good tax adviser or Certified Public Accountant will probably be very helpful. Advice from experts in the tax field can keep you from making costly mistakes and save you money. The use of experts will decrease the amount of your paperwork.

The owner/manager of a business is liable for paying many different taxes. For example, a Small Business Administration publication, Managing for Profits, lists these types of business taxes:

Federal:

- Individual income taxes
- Corporate income taxes
- Excise taxes (manufacturers, retailers)
- Employment taxes
- Social Security taxes
- Death taxes

- Stamp taxes
- Occupational taxes
- Customs

State (specific taxes vary in each state):

- Individual income taxes
- Corporate income taxes
- Gross receipts and sales taxes
- Business real and personal property taxes
- Capital stock taxes
- Business automobile and truck licenses, inspection taxes
- Death taxes
- Foreign-state business taxes
- Worker's Compensation insurance premiums
- Incorporation fees
- Employment taxes

Local:

- Individual income taxes
- Sales taxes
- City, school district, and county real and personal property taxes
- Business licenses
- Business real and personal property taxes

As a business owner, you will assume two roles in managing taxes. In one role, you are a debtor. In the other role, you are an agent. As a debtor, you are responsible for various taxes and must pay them as part of your business obligations. For example, each year you owe federal income taxes and also local estate taxes if you own your business building.

In the role of agent, you collect various taxes and pass the funds on to the government. For example, each payday you deduct federal income and Social Security taxes from the wages of your employees.

**Federal Income Tax.** One type of tax with which most people are familiar is the federal income tax. In paying income taxes, the business owner is again both a debtor and an agent. As a debtor, the amount of federal income tax you will pay depends on the income of your firm. The type of business structure—sole proprietorship, partnership, or corporation—in addition to any other income, exemptions, and personal deductions (nonbusiness deductions) will affect the amount of federal income tax you will pay.

If you are the sole proprietor of your business, you pay your income tax just like any other individual. You will file the same forms, except you will prepare an additional form, Schedule C, Form 1040, and attach it to Form 1040. If you are involved in farming, you will also need to prepare Schedule F, Form 1040.

Should your business be a partnership or a corporation, there are some differences in the forms you must file and the dates for making tax payments.

**Withholding Federal Payroll Taxes.** If you have employees, then as the business owner you have the role of tax agent. The taxes you withhold as a tax agent are paid to the government following set rules, procedures, and due dates. Paying withholding taxes involves two steps:

1. Reporting the federal income tax and Social Security taxes withheld from employees' pay.

2. Depositing the funds withheld.

Tax return Form 941 is used to report withholding and Social Security taxes to the government. The report is due quarterly on each April 30, July 31, October 31, and January 31.

You are required by law to withhold a portion of your employees' pay to cover their federal income tax liability. When you hire an employee, you have the employee sign a Form W-4, "Employees Withholding Allowance Certificate." On the form the employee lists the exemptions and any additional withholding allowances claimed. This completed form gives you the authority to withhold income tax according to the tables issued by the Internal Revenue Service (IRS).

Your employees make federal income tax payments each payday through you. You "withhold" these taxes and pass these payments on to the government at stated periods of time. At the end of the year, you will be required to provide every employee who worked for you during the previous year with a W-2 form, listing total wages and taxes deducted for the entire year.

You are also responsible for collecting and paying your employees' Social Security taxes. You, as the employer, must also pay a matching amount. Social Security taxes are both employer and employee taxes. As an agent, you will withhold the tax that each employee owes. Then, as a debtor, you will match these employee

withholdings. For example, in 1981 Social Security taxes were deducted at the rate of 6.65 percent on the first $29,700 of an employee's wages. As an employer, you would have been required to match that 6.65 percent that you withheld for a worker making $29,700.

If you are interested in using Social Security for your own retirement, you must pay the tax yourself. For additional information, see the SBA publication, *Retirement Plans for Self-Employed Owners-Managers* (Small Marketer's Aid No. 131).

You must also pay unemployment taxes. Your firm is liable for federal unemployment taxes if you paid wages of $1,500 or more in any calendar quarter, or you had one or more employees working at least some portion of one day during twenty or more calendar weeks. The twenty weeks do not have to be consecutive. This federal unemployment tax is paid by the employer and is not deducted from the employee's wages. Federal unemployment tax must be paid on or before each January 31 for the preceding year.

**Other Federal Taxes.** Federal excise taxes are collected on the sale or use of certain items, on certain types of transactions, and on certain occupations. For example, there is an occupational tax on retail dealers of adulterated butter, on retail dealers of beer and liquor, and on wholesale beer and liquor dealers. A retailer's excise tax is levied on diesel fuel and special motor fuels. Check with your local Internal Revenue Service office if you are in doubt about the excise taxes your business must pay.

**State and Local Taxes.** Although state taxes vary from state to state, the three major types of state taxes are unemployment taxes, income taxes, and sales taxes. Many local governments also have income and sales taxes. It is essential to know what taxes your state and local governments require you to pay as a debtor and what taxes it requires you to collect as an agent.

Every state has unemployment taxes. The requirements vary among states. In some states, employees and employers contribute to unemployment taxes. The rate of tax charged is usually based on your firm's unemployment history and with the unemployment experience of your state.

Many states now have state income tax. In some cases, the employer must withhold state income tax from the employee's wages. In most cases, the state tax returns are similar to those used by the federal government.

Many states also have sales taxes. The business must collect the sales tax from customers and send it to the state agency.

Counties, municipalities, towns, and cities impose various kinds of taxes on businesses. These might include real estate taxes, personal property taxes, and taxes on gross sales. Some cities also have an income tax.

**Meeting Tax Obligations.** If you hire employees, whether they are full-time or part-time, you will be responsible for taxes, forms, and insurance requirements. Depending upon the city and state, you will be responsible for meeting federal, state (and sometimes city) requirements.

Be sure to contact the Internal Revenue Service (IRS) office in your area before you hire any employees. Request the form that must be filled out to receive an Employer's Identification Number. You will need this number for all federal, state, and local tax forms. The IRS will also send you the necessary forms for tax deposits and reports. Also obtain a copy of the *Employer's Tax Guide* that will give you all the information you need to know about how and when to deduct and pay federal withholding taxes, Social Security taxes (FICA or FOAB), and federal unemployment taxes.

Contact your state government offices for their tax information. Be sure you also call your state taxing agency and ask for all the necessary forms and information concerning withholding and unemployment taxes.

You should check with your local authorities to make sure your business is meeting its local obligations. If you are located in a city that has withholding taxes, request information from the city taxing agency.

All of these agencies are listed in your phone directory. Look under the heading "United States Government" for the Internal Revenue Service, under the heading of your state government for state tax agencies, and under your city government for city tax agencies.

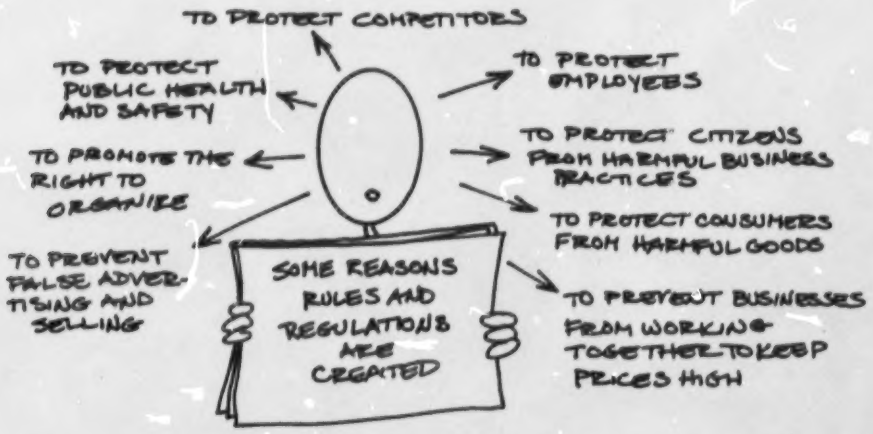
Successful entrepreneurs meet their tax obligations by following sound planning principles. The SBA publication, *Steps in Meeting Your Tax Obligations* (Small Marketers Aid No. 142), lists the planning principles that should be followed to meet your tax obligations. The basic principles are:

1. Know your tax liability. What kinds of taxes do you have to pay? How much are they in dollar amounts? When are they due?
2. Set aside the funds necessary to pay various tax bills.
3. Pay taxes on time; avoid penalties for late payment.
4. Get advice from an expert, such as an accountant, lawyer, or tax counselor.

**WHAT HELP CAN BE FOUND FOR COMPLYING WITH GOVERNMENT REGULATIONS?**

As you can see from this unit, many laws and regulations affect small businesses. These laws and regulations have been increasing in number and complexity. To avoid legal problems and higher costs of operation, a small business owner must plan to meet all legal obligations.

To meet these legal obligations, the owner/manager must first know the laws and their provisions. Whether the obligations concern protection or competition, employees, consumers, the environment, or the payment of taxes, there is a great deal of assistance that is available to you.


TO PROTECT COMPETITORS
TO PROTECT PUBLIC HEALTH AND SAFETY
TO PROTECT EMPLOYEES
TO PROMOTE THE RIGHT TO ORGANIZE
TO PROTECT CITIZENS FROM HARMFUL BUSINESS PRACTICES
TO PROTECT CONSUMERS FROM HARMFUL GOODS
TO PREVENT FALSE ADVERTISING AND SELLING
SOME REASONS RULES AND REGULATIONS ARE CREATED
TO PREVENT BUSINESSES FROM WORKING TOGETHER TO KEEP PRICES HIGH

Locally, lawyers, accountants, bankers, municipal officials, and other owners of small businesses can tell you the regulations in your area. State agencies and officials can be contacted at their state or regional offices.

At the federal level of government, several agencies can provide information regarding your legal obligations from various federal laws. The following is a partial listing of these agencies:

- Environmental Protection Agency
- Federal Trade Commission
- U.S. Department of Health and Human Services
- Department of Labor
- National Labor Relations Board
- Small Business Administration

## ACTIVITIES

Knowing and following government regulations is important. Now that you have been introduced to the major laws, try these activities. They will improve your understanding of this complex area of small business, and they are designed to assist you in planning for compliance with the laws.

**INDIVIDUAL ACTIVITY**

Check with local government offices that handle business permits and licenses. Develop a list of required permits and licenses, along with required fees, time limits, and other provisions.

**INDIVIDUAL ACTIVITY**

Check with state and federal tax agencies to determine the taxes for which your business will be responsible. Identify the rate, your debtor and agent roles, and due dates. Also, ask for agency publications that will aid you in complying with the law.

**GROUP ACTIVITY**

Invite the owner of a small business to meet with your group to discuss how to find information concerning government regulations affecting business in your geographic region. Have the owner discuss the planning needed to comply with government regulations.

**GROUP ACTIVITY**

Contact an accountant to explain to your group about major items of consideration in tax planning. Have the accountant discuss the tax considerations of each form of business organization (sole proprietorship, partnership, corporation) and the need for year-end planning.

**CASE STUDY**

Marie Arnette has owned her own business for five years. What began as a corner health food store has grown into an organization of twelve stores, and she has recently opened a central warehouse to supply the twelve stores and selected dealers in two adjoining states. Things are going so well that Marie is considering the purchase of the production facilities of one of her suppliers. She plans to manufacture and market her own line of health foods hopefully to reduce her costs and remaining highly competitive.

Not everything is going as planned. Although Marie tries to treat her employees fairly, her organization has reached a size that prohibits her from dealing with most of her workers on a one-to-one basis. She has received some complaints from female employees who feel they have been paid lower wages than some men doing the same work. Also, one drawback to the purchase of the supplier's production facility is the attempt by a group of employees to unionize the plant.

Marie is concerned. Through much hard work she has built a thriving business; she sees many opportunities to achieve even greater success, but she does not want to risk her business without careful investigation of the situation. What regulations or specific legislation affects Marie's current and possible future situation? What experts or governmental agencies might provide her with assistance in planning to comply with government regulations?

**ASSESSMENT**

Directions: Read the following items to check your own knowledge of these topics. When you feel prepared, ask your instructor to test you on them.

1. List and briefly explain three reasons why government regulations are important to the owners of a small business.

2. Government regulations provide protection to four major areas of our society. Name these areas and briefly explain the types of protection provided in each area.

3. Licenses and permits may be required for your business. What are some of the more common licenses and permits required by government?

4. Federal, state, and local governments require the collection and payment of several taxes. For each of the three levels of government, list at least four taxes that are the responsibility of small business owners.

5. Prepare a list of government agencies that can provide assistance in complying with government regulations. The list should include at least two agencies from each of the three levels of government.

## NOTES

[1]Weidenbaum, Murray L. *The Future of Business Regulation.* New York: AMACOM, 1979.

We thank the above author for permission to reprint from his work.

## SOURCES USED TO DEVELOP THIS UNIT


Day, W. *Maximizing Small Business Profits.* Englewood Cliffs, NJ: Prentice-Hall, 1978.

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Mancuso, J. *How to Start, Finance, and Manage Your Own Small Business.* Englewood Cliffs, NJ: Prentice-Hall, 1978.

Rudelius, W.; Erickson, W.; Bakula, W. Jr.; and Hanson, J. *An Introduction to Contemporary Business.* 3d ed. New York: Harcourt Brace Jovanovich, 1981.

Siropolis, N. *Small Business Management.* 2d ed. Boston: Houghton Mifflin, 1982.

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For further information, consult the lists of additional sources in the *Resource Guide.*

# PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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